

1 Background

- 1.1 Whilst some museums and galleries report a value for all heritage assets in their balance sheets, most do not. The more common practice is to capitalise (or recognise) only those heritage assets acquired since 2001 at cost with those acquired prior to 2001 simply being left off the balance sheet.
- 1.2 The current SORP, whilst encouraging the valuation and capitalisation of all previously acquired heritage assets, provides for a cost/benefit test that allows non-capitalisation where costs and practicability outweigh the benefits of obtaining a valuation. Prior to 2001 accounting practice tended to write-off the cost of heritage asset additions as though it were a revenue expense, also heritage assets may often have been acquired many years ago so making it impractical to ascertain realistic cost estimates. Most charities take advantage of this cost/benefit test to exclude from the balance sheet all heritage assets acquired before 2001.
- 1.3 The consultation, undertaken as part of the development of the Charities SORP published in March 2005, highlighted concerns from a number of museums and galleries who questioned the rationale for this dual approach to capitalisation.
- 1.4 The effect of FRS 15 is now recognised by the Accounting Standards Board (ASB) as producing inconsistent accounting for similar assets and balance sheet values which, whilst apparently significant, represent only a small part of the total number of heritage assets held. It had been hoped that an ASB Exposure Draft would be issued in the autumn and that the new standard, addressing heritage asset accounting, would be available for adoption in financial statements for years ending 31 March 2007.
- 1.5 The SORP Committee, in developing the current Charities SORP, whilst recognising these concerns were unable to develop their recommendations further within the context provided by relevant accounting standard - FRS 15:Tangible Fixed Assets.
- 1.6 In January 2006, The ASB published a Discussion Paper setting out proposals to improve the consistency and transparency of the financial reporting of heritage assets. This Discussion Paper proposed that “entities should adopt a policy of recognising heritage assets where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity.”
- 1.7 However, where it is clear that practical considerations prevent this, a ‘non-capitalisation’ approach should be adopted. Entities would be required to provide relevant disclosures (including the reason why

valuation is not practicable) and consistently apply a policy of reporting heritage transactions in a way that does not distort financial performance.

- 1.8 The ASB Discussion Paper – “Heritage Assets: can accounting do better?” – can be downloaded at:

www.frc.org.uk/asb/technical/projects/project0066.html

2 ASB Proposals to amend FRS 15: Tangible Fixed Assets

- 2.1 The ASB had hoped that an exposure draft of the proposed amendment to FRS 15 would be issued this autumn with a new standard being available for adoption in financial statements for years ending 31 March 2007.
- 2.2 The Commission and OSCR, as the joint SORP-making body for UK charities, was asked by the ASB if papers could be presented to the SORP Committee at the earliest opportunity setting out draft guidance to the UK charity sector in relation to this proposed amendment. The ASB indicated to us that the availability of sector specific guidance was seen by them as an important element facilitating the early application of the new standard.

3 How might the SORP be amended?

- 3.1 To amend, revise and re-publish the current SORP to address the partial amendment to an existing standard would be disproportionate and the timescale available to us would also make this an impractical option.
- 3.2 The favoured approach is therefore to publish an Update Bulletin dealing specifically with heritage assets. The Update Bulletin would provide a background to the heritage asset debate and the amendment to FRS 15 and update the recommendations relating to heritage assets contained within the current SORP. The issue is well defined, only relates to a single standard and its impact is limited to a sub-sector of charities that hold such assets in furtherance of their charitable objectives. An Update Bulletin would update recommended practice but would not form part of the SORP’s “methods and principles” supported by regulations and hence not a matter of legal requirement. A similar approach was adopted in 2003 when an Update Bulletin was issued in relation to the sector’s application of FRS17: Retirement Benefits.
- 3.3 A “working draft” of the proposed Update Bulletin is attached as paper 3.1.
- 3.4 A copy of the ASB’s draft of their planned Exposure Draft, as presented to their Board on 19 October 2006, is attached as paper 3.2 for information and should be regarded as provided “in confidence” and for the purposes of this meeting only.

Does the SORP Committee agree that the proposed amendment to FRS 15 can be dealt with appropriately by the issue of a SORP Update Bulletin?

- 3.5 The accounting treatment of heritage assets has received considerable exposure through the ASB's Discussion Paper and consultation thereon. In addition, the amendment to FRS 15 will also be subject to full consultation by the ASB. However, this will not relieve us of consultation responsibilities in relation to the recommendations provided in any Update Bulletin we issue.
- 3.6 It is proposed that any Update Bulletin dealing with heritage assets should be subject to the normal three month consultation period. The consultation would be undertaken through an invitation to comment and an exposure draft of the Update Bulletin being made available on the websites of the Commission and OSCR. In addition, it is proposed that all those who replied to the 2005 SORP consultation, expressing concern as to the accounting treatment of heritage assets, be specifically asked their views. We will further target the consultation by writing to those who have responded to the ASB's Discussion Paper.
- 3.7 Any consultation version of the Update Bulletin will also be subject to review by the ASB's Committee on Accounting for Public-benefit Entities prior to its release and may also be tabled for their Board's consideration prior to release.

Does the SORP Committee agree these consultation arrangements?

Would there be advantages in hosting a "round-table" event towards the end of the consultation period to allow face-to-face feedback from those parts of the sector affected?

4 The Draft Update Bulletin

- 4.1 The draft Update Bulletin (paper 3.1) has been prepared on the basis of a draft version of the ASB's amendment to FRS 15 that was considered by their Board on 19 October 2006.
- 4.2 Subsequent to the ASB's Board meeting, we have been informed that their Board favours a further change in approach. The paper considered by the ASB Board required the recognition (capitalisation) of heritage assets where "it is practicable to obtain current valuations, which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity."
- 4.3 Where it is not practicable to obtain valuations heritage assets would not be reported in the balance sheet and acquisitions and disposals will not be reported as giving rise to losses or gains.
- 4.4 The ASB's Board, we understand, now believes that the question of practicability needs to be looked at on a collection by collection basis. Thus, whilst it may not be possible to value all collections, it may be practical to value some. For example, a fossil collection may be impractical to value but a modern art collection might be valued and included in the balance sheet.
- 4.5 The approach now favoured by the ASB raises some difficult issues. For example, how might boundaries between collections be defined? More importantly, however, this approach seems to have the same weakness inherent in the current SORP's approach, that is, it may result in only a small proportion of a museum's collections being included in the balance sheet. The approach could be seen as arbitrary and have the additional disadvantages of valuations needing to be considered at a more micro-level with the cost implications that would bring.

What is the SORP Committee's view on the capitalisation of individual collections?

Does the SORP Committee wish to provide comment to the ASB?

- 4.6 With the exception of the issue concerning the capitalisation of individual collections, the draft Update Bulletin has been drafted in line with current ASB thinking and is in line with draft version of the ASB Exposure Draft presented to the ASB's Board on 19 October. Clearly, we are not in a position to seek the SORP Committee approval of the Update Bulletin until the final text of the ASB's Exposure Draft is available. However, views and comments on the current draft would be appreciated and would allow us, if necessary, to agreeing any final changes to text by correspondence.

Does the SORP Committee have any comment on the text of the proposed Update Bulletin?

Are there any particular issues or questions that should be raised when consulting on the draft?

Is the SORP Committee content for any final amendments to the text presented today to be agreed in correspondence?

5 Building of religious significance and ancient centres of learning

- 5.1 The ASB's exposure draft makes it clear that buildings of historical interest should be treated as heritage assets only where it is their historical characteristics that contribute to the advancement of the entity's objectives. Specific mention is made of the exclusion of buildings used primarily to provide teaching facilities, however, similar issues may also arise in the context of places of worship that have historic or religious significance.
- 5.2 The ancient centres of learning, for example public schools, tend not to capitalise their historic buildings or historic texts, furniture or art that may be seen at contributing to the heritage and ambiance of the school or college. Unless such items or artefacts are held on trusts for their preservation, the ASB's exposure draft would seem to offer no alternative to their capitalisation.

Does the SORP Committee believe that such assets when held by educational institutions should be capitalised?

If not, what rationale could be used in the SORP to justify an apparent contradiction with the underlying standard?

- 5.3 Buildings and artefacts of religious significance do however pose very real valuation issues. For example, a new structure could recreate the floor area and seating capacity of a medieval Cathedral but such a structure would not recreate the uniqueness of the original in terms of the religious and historical significance.

Does the SORP Committee agree that there are genuine conceptual and practical difficulties involved in valuing structures and artefacts of religious significance?

If so, how should the SORP deal with the apparent contradiction with the ASB Exposure Draft?